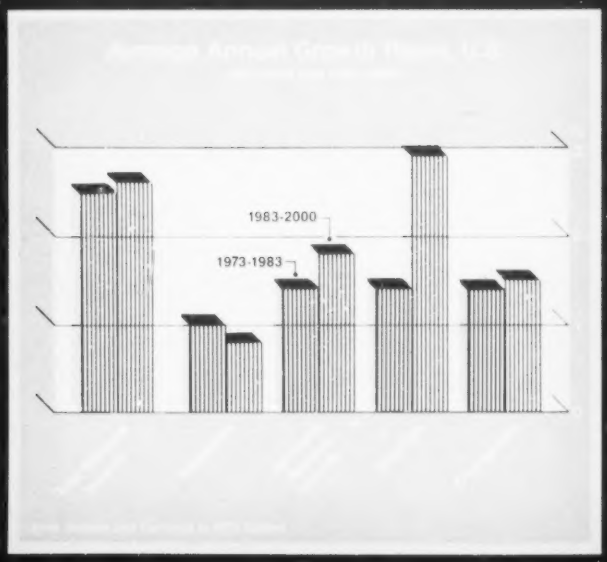
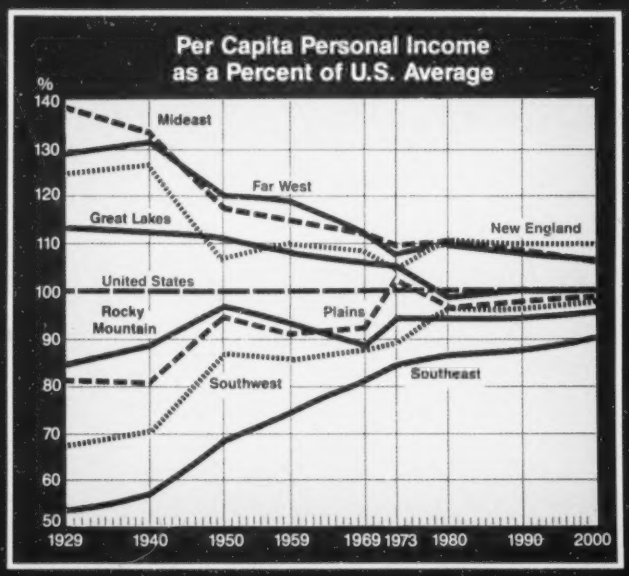
The Conference Board

U.S. Regional Projections to the Year 2000

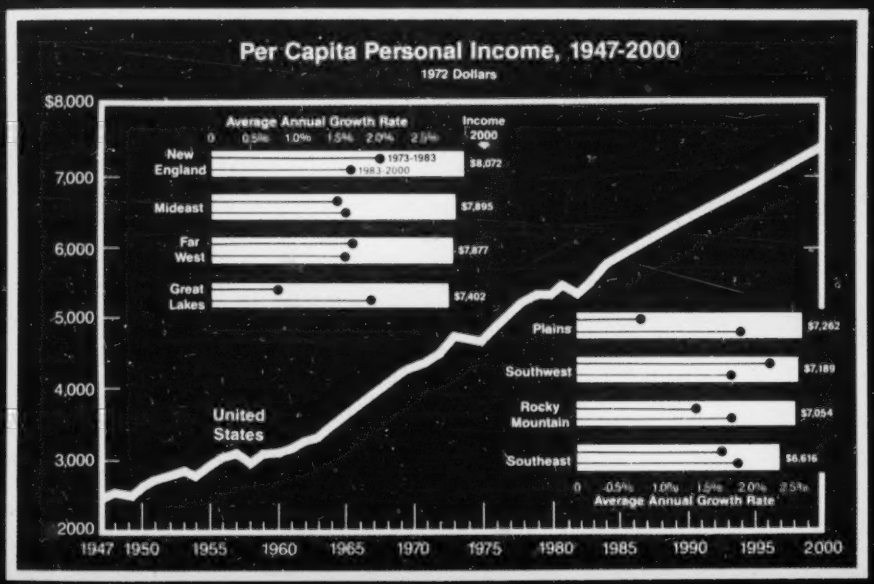
Economic Road Maps
Nos. 1999-2000 December, 1985

Economic differences between major regions of the U.S. have narrowed markedly over the past few decades, and are expected to converge further between now and the end of the century. But, as the chart below shows, regions where income levels were below the national average remain so, while regions that topped the national level continue above average. However, in spite of the regions' convergence, the differences among the 50 states are enormous; they vary in size, population, and more importantly, in their economic structure and income levels.



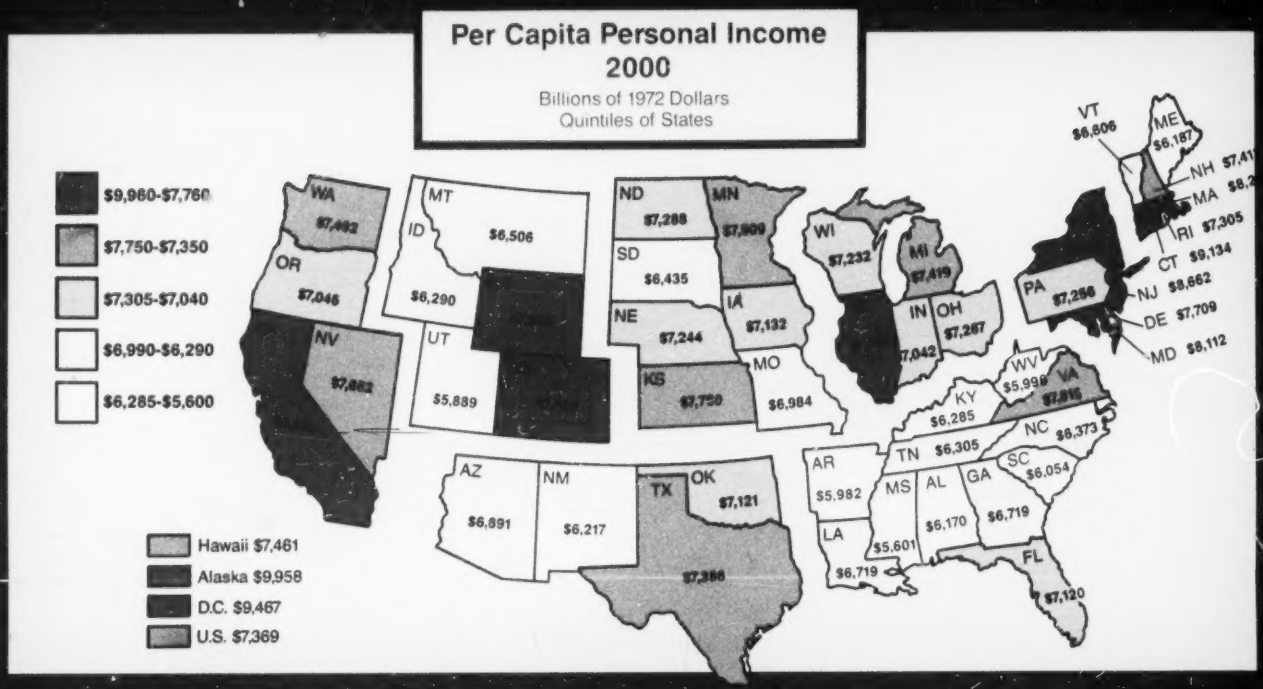


The latest regional and state projections of personal income, population, earnings and employment to the year 2000 released by the Bureau of Economic Analysis are based on data through 1983 and are predicated on an extension of past economic relationships with no major policy changes. These projections are not goals for future economic activity, but serve only as a general guideline, and should therefore be used with some degree of caution.



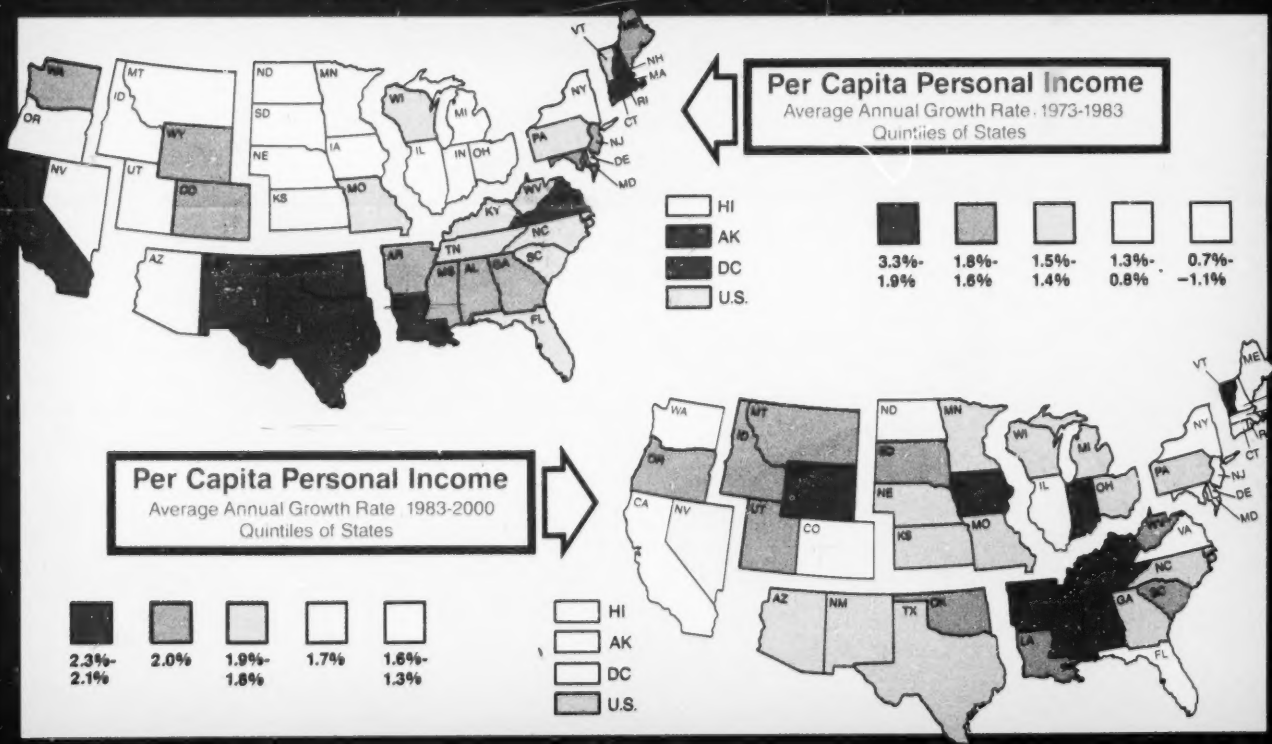
Highlights of the Study Show:

- A continuing convergence of per capita personal income to the national average. Per capita income



represents a rough measure of living standard, thus its importance.

- A slowdown in population growth rate from 1% during 1973-83, to 0.8% in 1983-2000. At the same time, the shift of population to the South and West is expected to continue; these regions should account for 54% of total population in 2000, 8% more than in 1973.
- Growth of total personal income will be almost unchanged—2.6% annually to the year 2000. Its growth will be fueled mostly by large gains in earnings, which are expected to grow at twice the rate of the past period.
- High income states will, as in the past, be mainly concentrated in the eastern and western part of the country in 2000; but the states in the South and Rocky Mountain together with the Great Lakes and Plains regions will have the fastest per capita income growth between 1983-2000.
- Shifts in employment structure will continue. A sustained weakness in manufacturing employment will be offset by growth in the service sector. The impact of loss of manufacturing jobs has been exceptionally heavy in the old industrial states, including Illinois, Michigan, Ohio and Pennsylvania—which saw over 20% of their manufacturing employment dis-

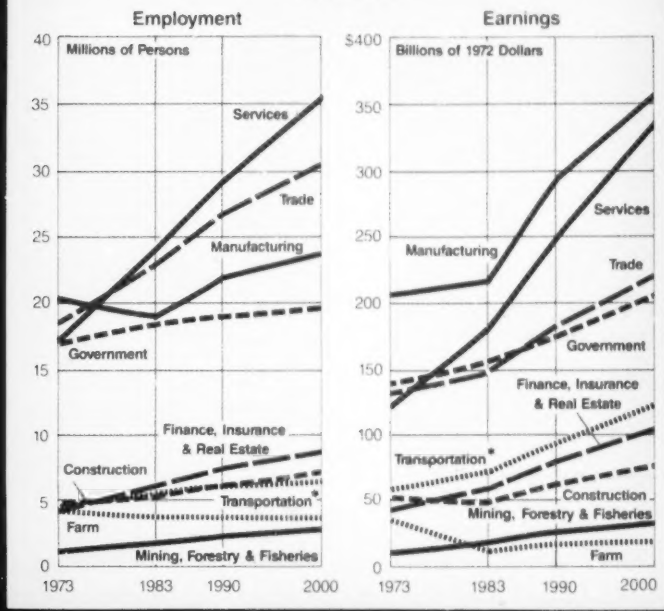


appear during a ten-year period. In many cases employment in this sector is not expected to recover to its 1970's level by the end of the century.

- Deep-rooted problems facing the farm sector are not expected to abate in the short run, and will result in further decline in employment in this sector.
- In spite of the generally sluggish growth in manufacturing jobs, the sector will continue to generate more in earnings than other industries, but by the end of the century, earnings in services will be almost comparable in size to those of manufacturing.
- Manufacturing of durables is one segment of the industry expected to do well in the years to come as the nation's defense industry continues to build up. It will constitute the fastest growing segment of the economy in terms of both employment and earnings in a number of states between now and 2000.

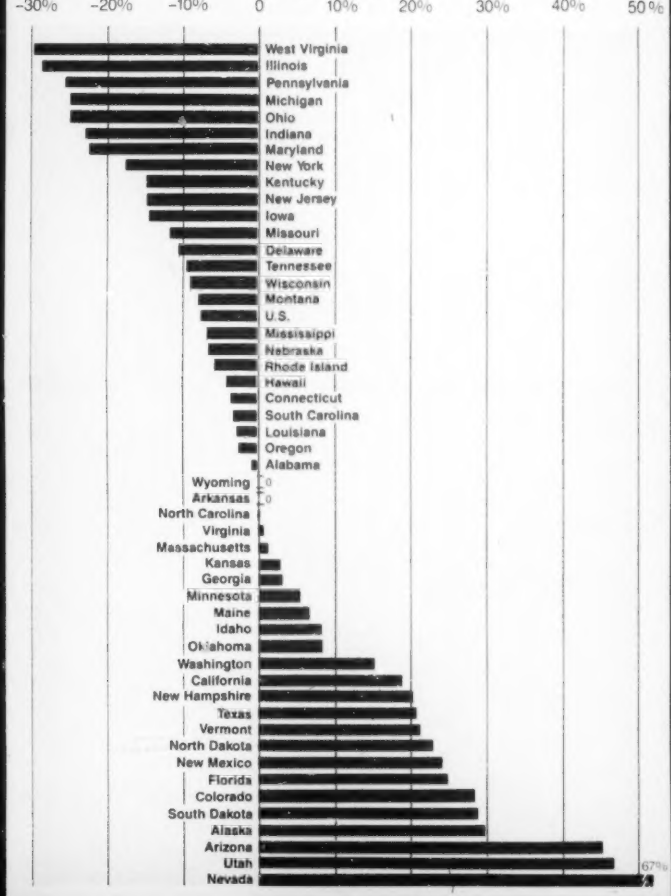
Sources: U.S. Department of Commerce, Bureau of Economic Analysis; The Conference Board.

Employment and Earnings, U.S. 1973-2000

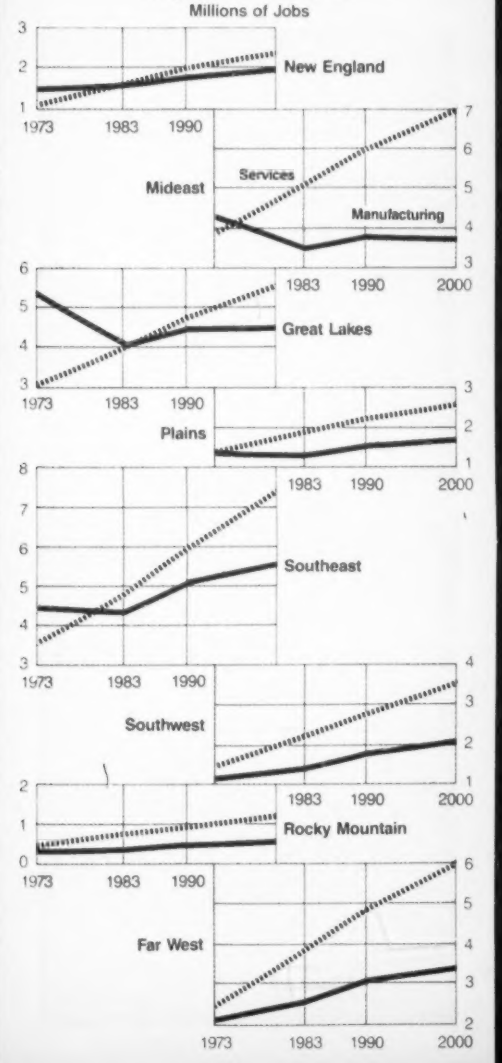


* Includes Communication & Public Utilities

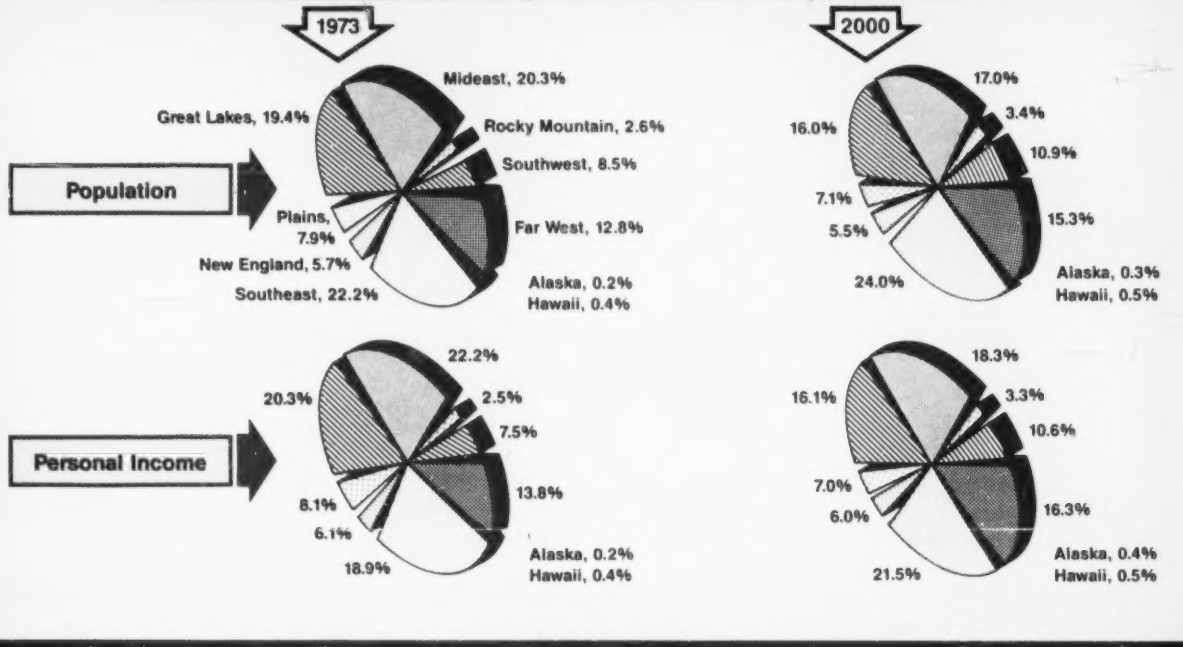
Percent Change in Manufacturing Employment 1973-1983

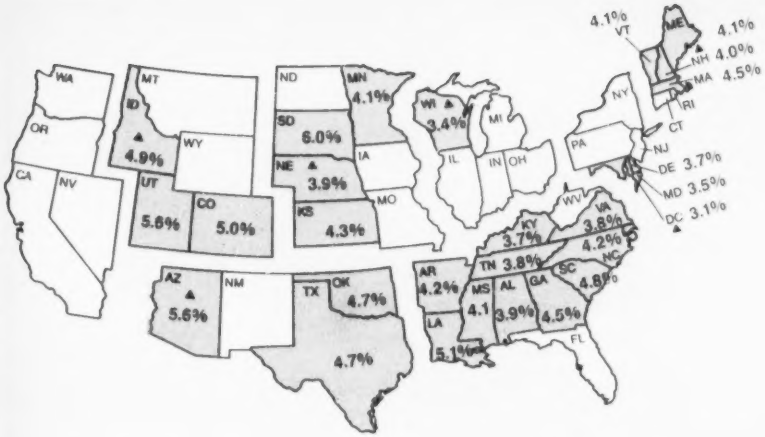


Manufacturing & Service Employment Regions, 1973-2000



Distribution of Population and Personal Income By Region

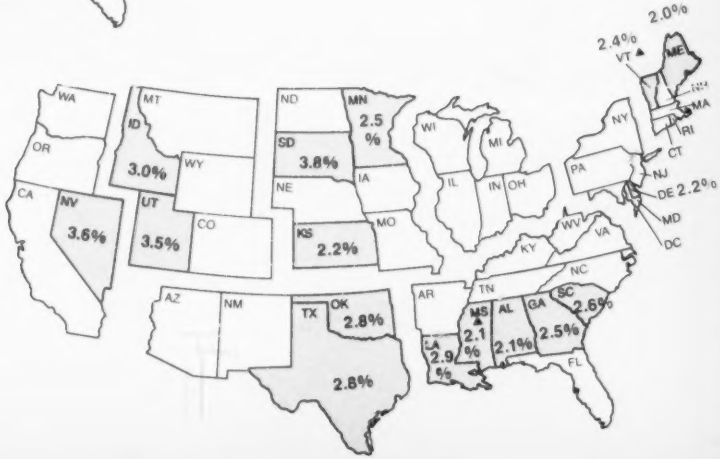




Growth of Durables Manufacturing Industry 1983-2000

Earnings

Growth Rates in Durables Manufacturing will top all other sectors in 27 states.*



Employment

Growth Rates in Durables Manufacturing will top all other sectors in 15 states.*

* Excluding Mining, Forestry & Fisheries
▲ Additional sectors have equal growth rates.

The Conference Board

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A Half Century of Change: 50 Years of Economic Road Maps

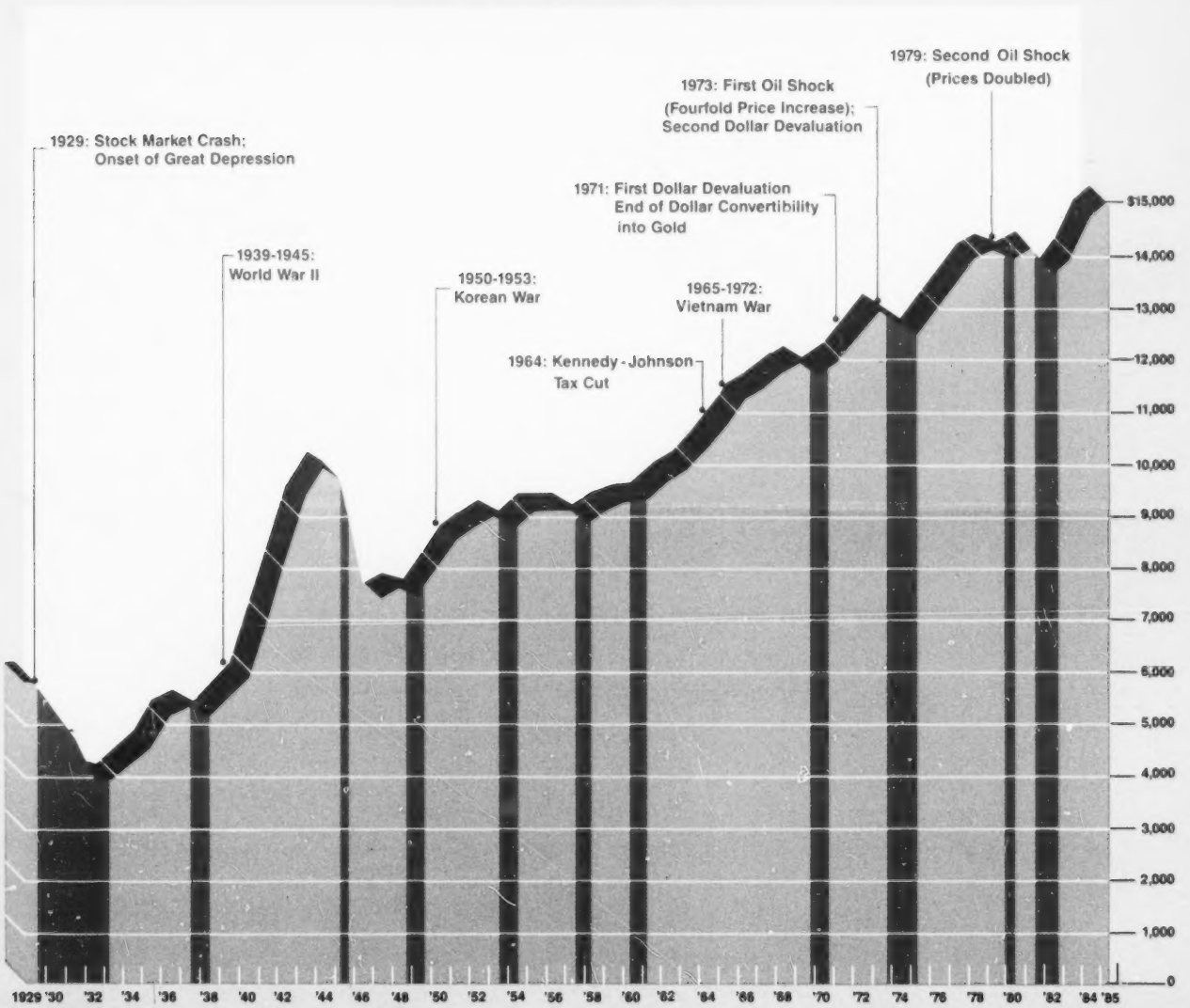
Economic Road Maps
Nos. 2001-2002 March 1986

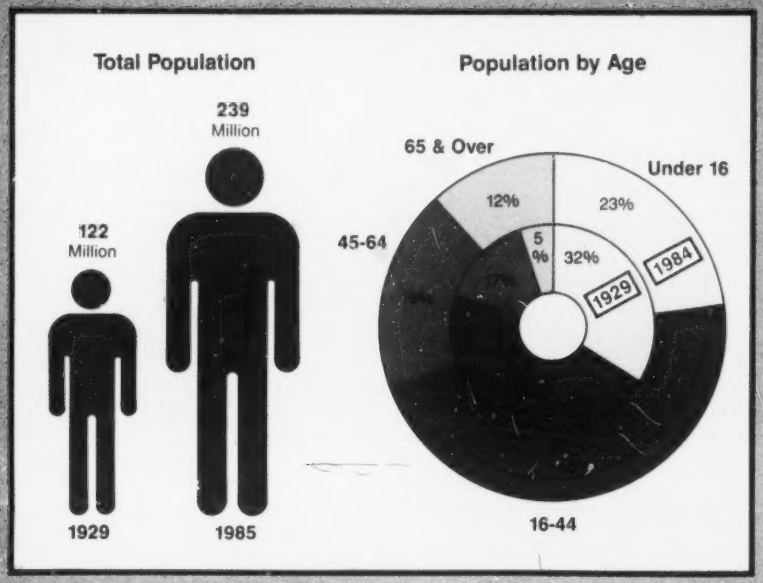
This year marks the fiftieth anniversary of the Economic Road Maps, the longest continuous as well as the most widely distributed publication of The Conference Board. During this period the circulation of the Road Maps expanded from 1,600 to over 40,000. In this anniversary issue we have highlighted a few of the socioeconomic changes of the period. We plan to publish additional anniversary issues on other topics during the course of the year.

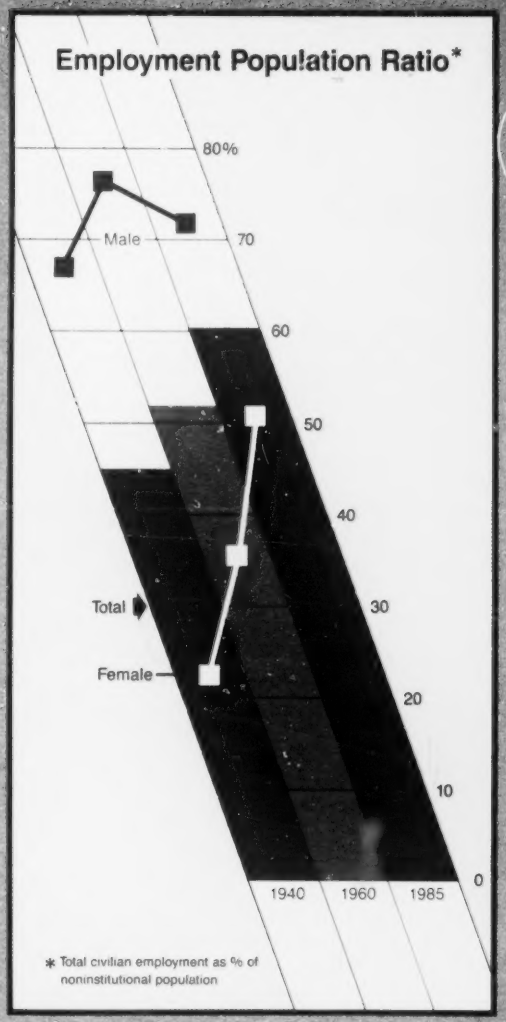
We can only repeat with Dickens: "It was the best of times, it was the worst of times." When the first Road Map was published the country was in the midst of the Great Depression. During the intervening 50 years, it lived through a world war, witnessed advances in science and technology surpassing those of all prior recorded history, and from an inward-looking nation preoccupied with its own problems emerged as the greatest political and economic power of the Western world.

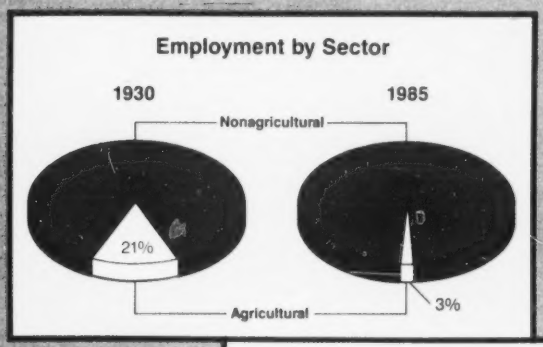
U.S. Economic Growth

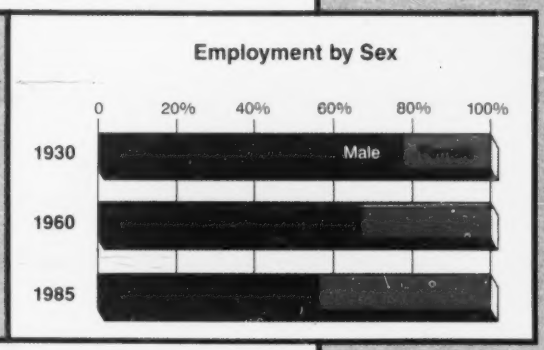
Real GNP Per Capita in 1982 Dollars

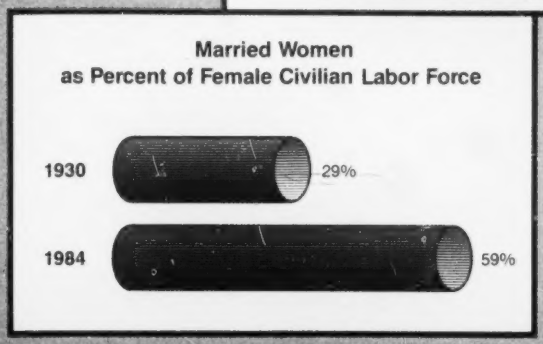


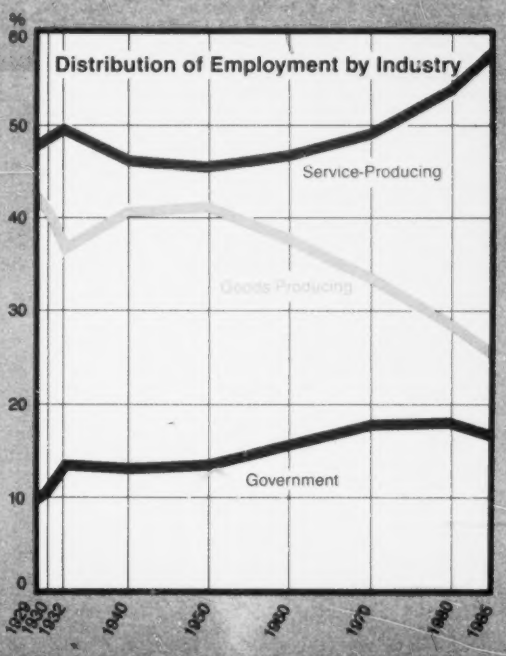

Total Population
239
Million
122
Million
1929
1985
Population by Age
65 & Over
12%
Under 16
23%
45-64
5
%
32%
1984
1929
16-44

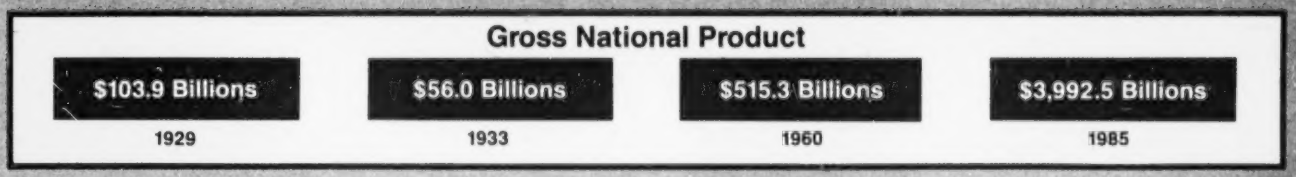

Employment Population Ratio*
80%
70
60
50
40
30
20
10
0
Male
Total
Female
1940
1960
1985
* Total civilian employment as % of noninstitutional population

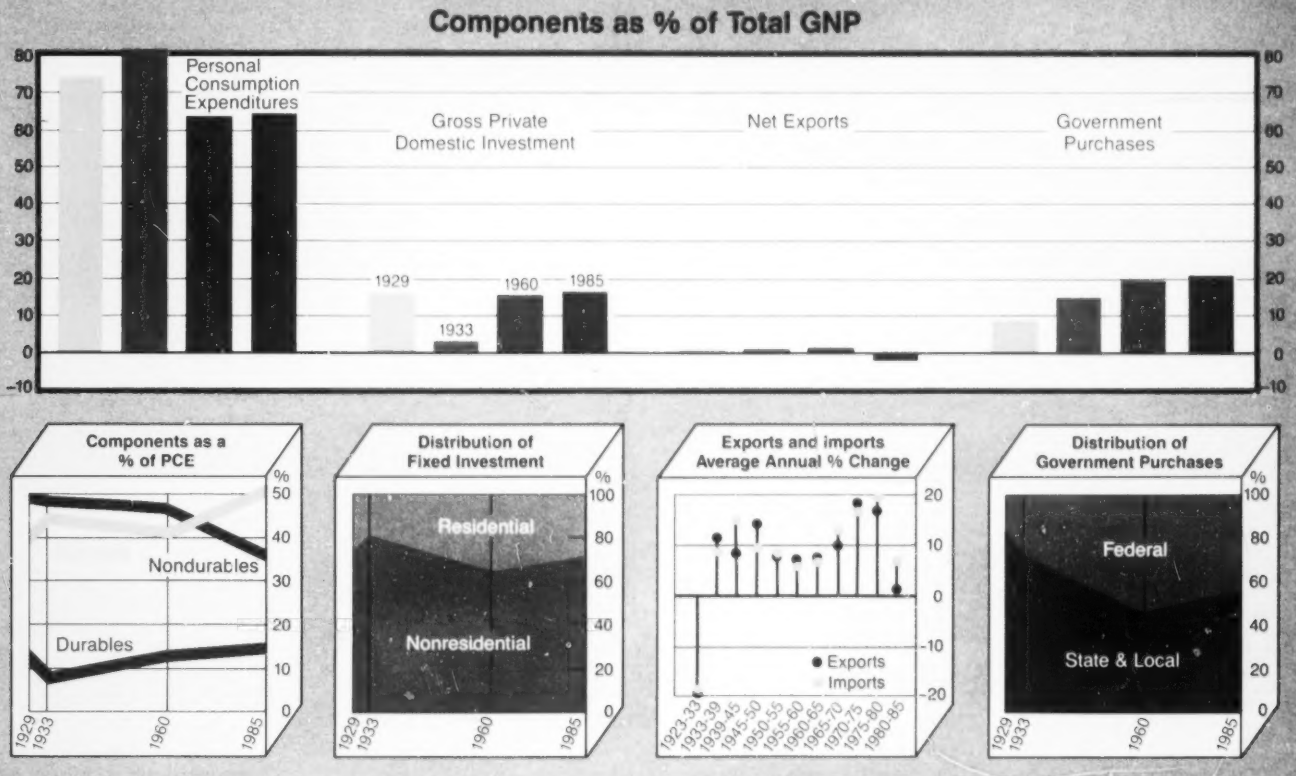

Employment by Sector
1930
1985
Nonagricultural
21%
3%
Agricultural


Employment by Sex
0
20%
40%
60%
80%
100%
1930
Male
1960
1985

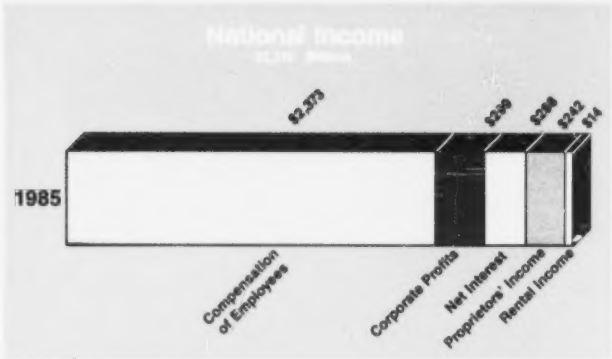

Married Women
as Percent of Female Civilian Labor Force
1930
29%
1984
59%

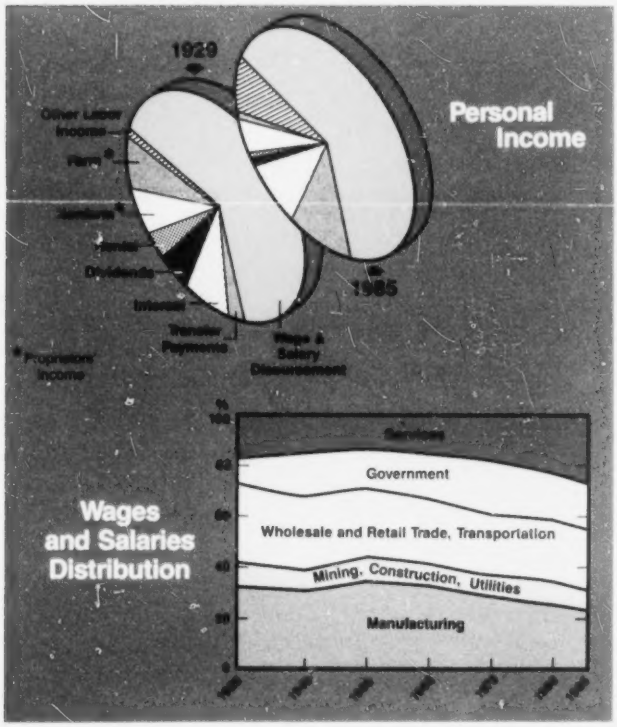

%
60
50
40
30
20
10
0
Distribution of Employment by Industry
Service-Producing
Goods Producing
Government
1929
1930
1932
1940
1950
1960
1970
1980
1985

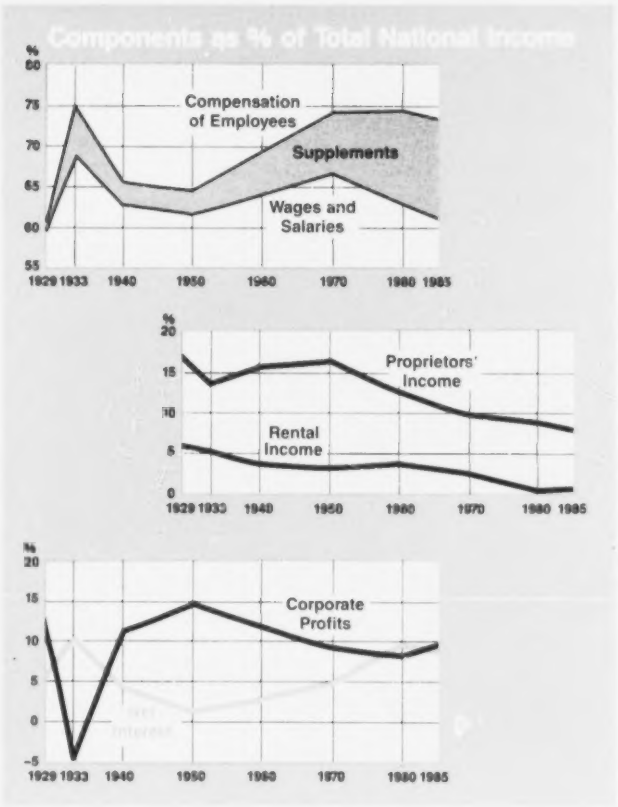




Today, however, it is facing new challenges not only from the highly industrialized countries, but from many of the newly developing nations of the third world as well. The standard of living of todays generation has surpassed the wildest dreams of those growing up during the dark days of the depression. The economic output for each man, woman and child was $15,000 in 1985 (measured in constant 1982 dollars), three times the figure of 50 years ago. The post World War II years were marked by an unprecedented long period of economic expansion; there were also problems along the way such as spiraling inflation starting in the late 1960s, high unemployment levels in the early 1980s, the energy crisis, volatile exchange rates, and a slowdown in productivity growth.

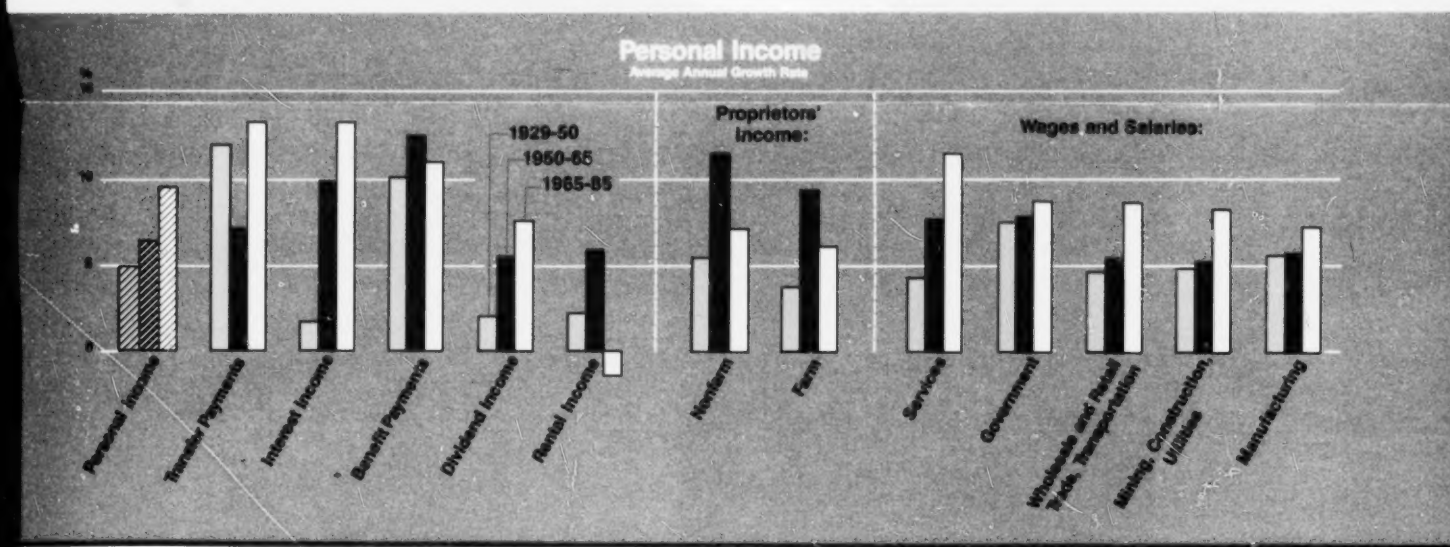






The government's role in the economy grew considerably—its share of GNP went from 8% to 20 percent. The country's rising affluence was matched by concern for the social welfare of its population. Antipoverty programs and retirement benefits for the aged were made possible by redistribution of the nation's wealth; transfer payments in 1985 accounted for 15% of personal income.

Sources: Council of Economic Advisers; U.S. Departments of Commerce and Labor; The Conference Board.



ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Chief Chartist
Prices for Quantities of this chart will be supplied on request to Information Service.

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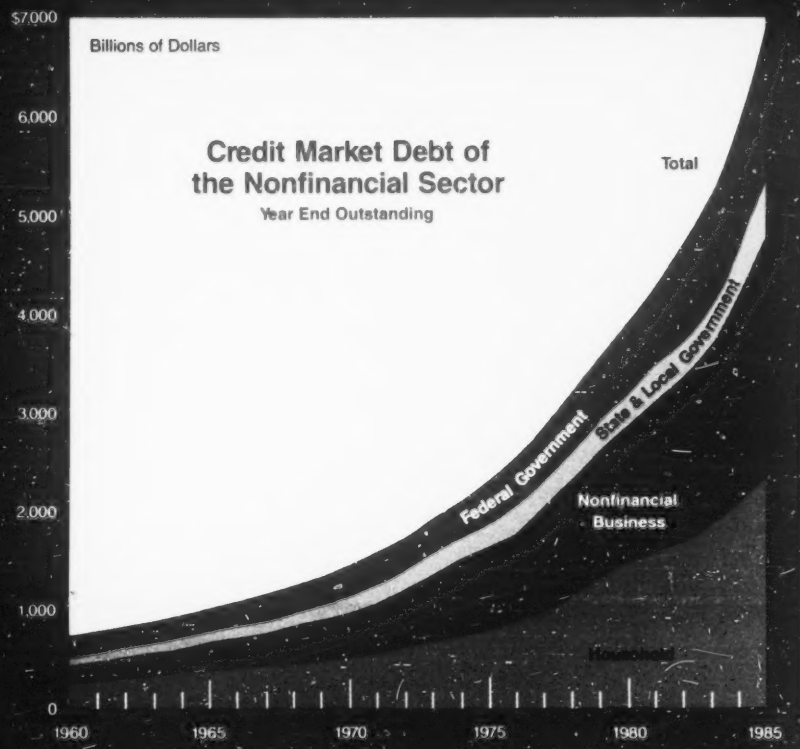
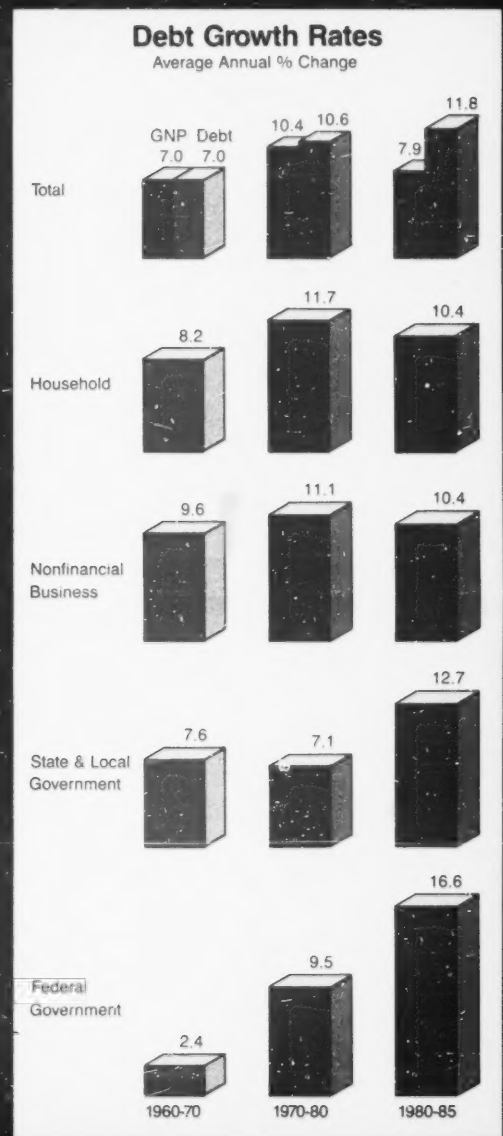
The Conference Board
70th Anniversary

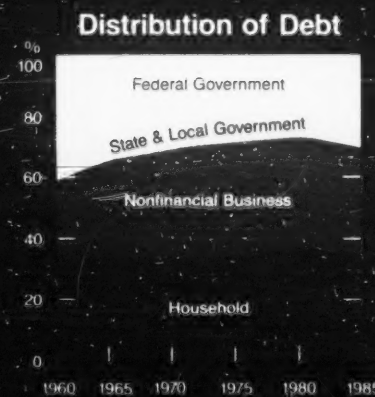
National Debt

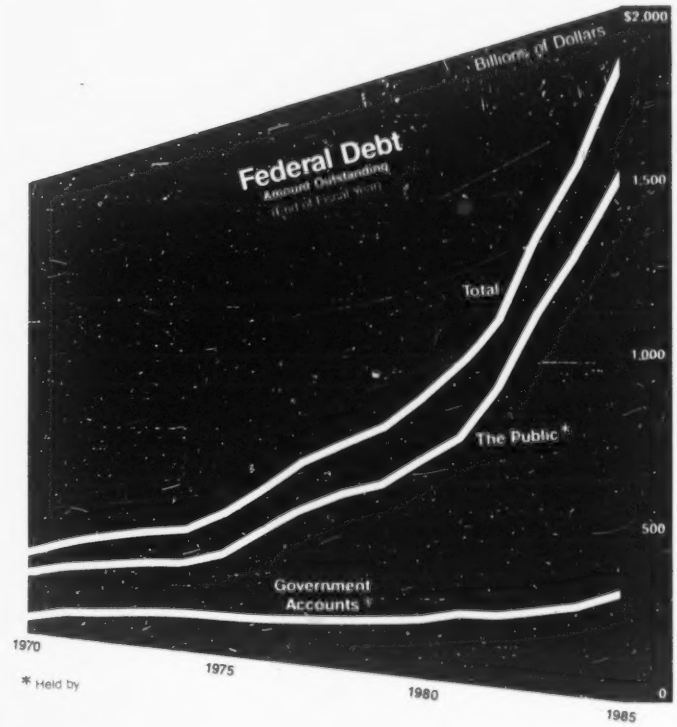
Economic Road Maps
Nos. 2003-2004
May, 1986

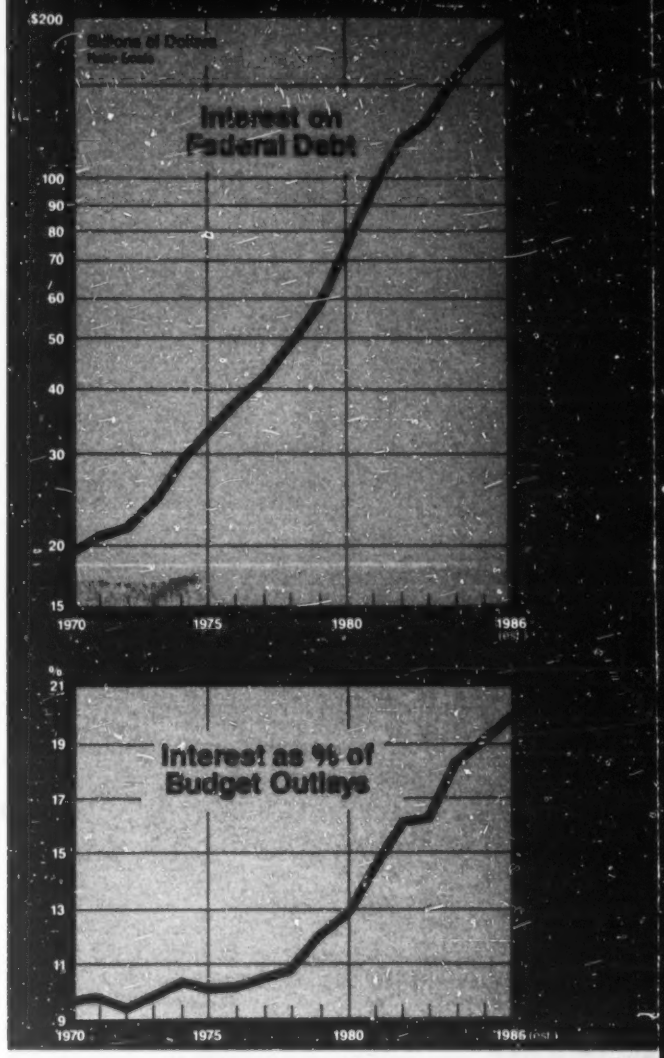
The rapid growth in the nation's debt, both public and private, is cause for some apprehension; domestic nonfinancial debt outstanding at the end of 1985 reached $7 trillion, an increase of $4 trillion since 1980. Moreover, debt growth has accelerated since 1980—with debt growing at an average rate of almost 12% while the economy was expanding at only 8 percent. (In earlier years debt and GNP grew at about the same rate.) The ratio of debt to GNP

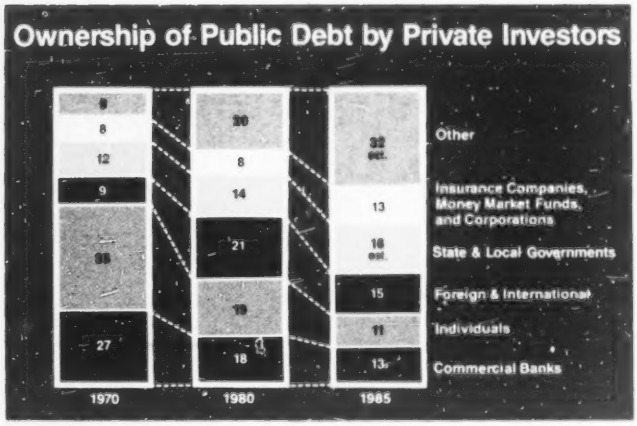


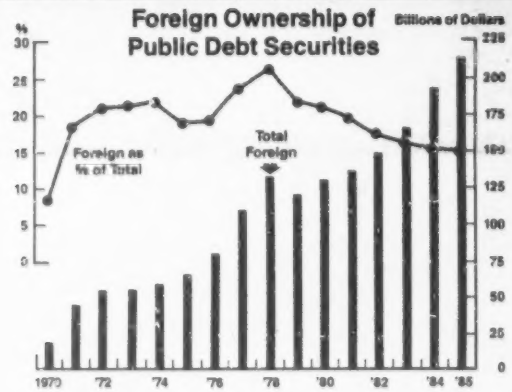


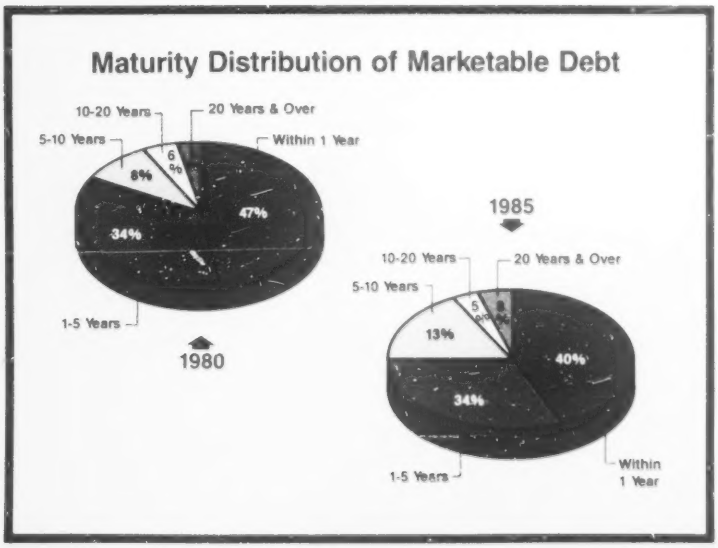






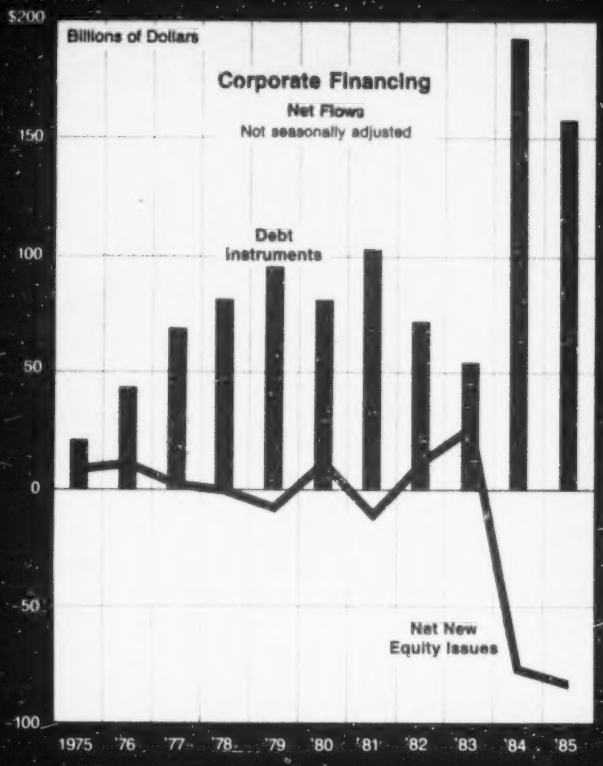


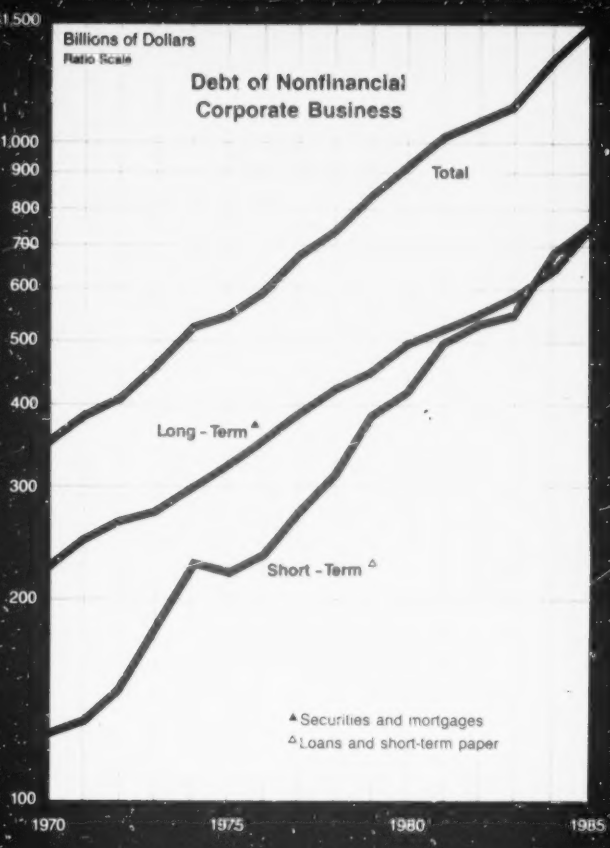




which had remained stable for most of the post World War II period at around 1.45 to one, has shot up since 1980 to a high of 1.72 in 1985.

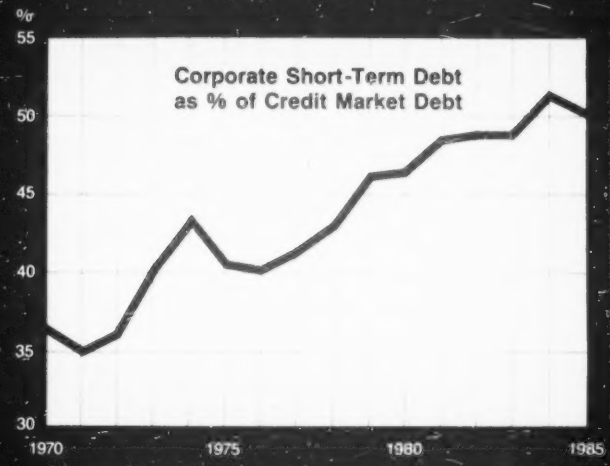
Federal debt grew from $500 billion in 1975 to $1.8 trillion in 1985; state and local debt added $500 billion to total government debt in 1985. During the past few years, the Treasury had to borrow heavily in order to balance the huge budget deficit. Interest cost on Federal debt is now almost $200 billion annually, and accounts for almost one-fifth of budget outlays, double the rate of only ten years ago.

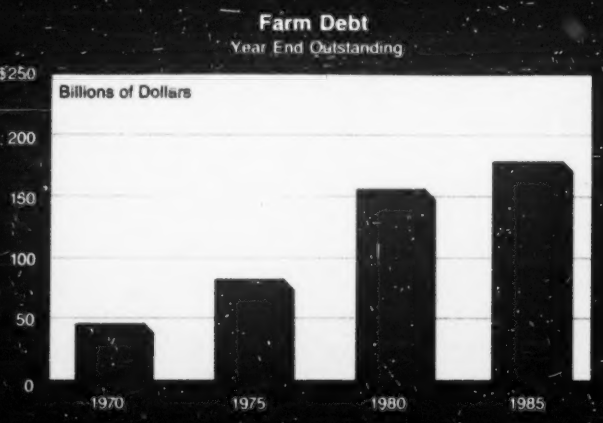


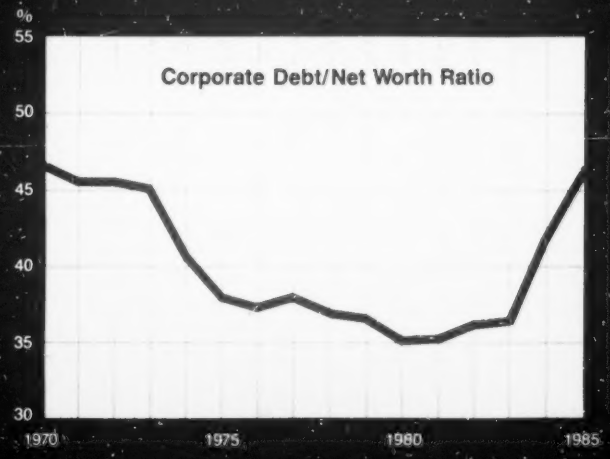


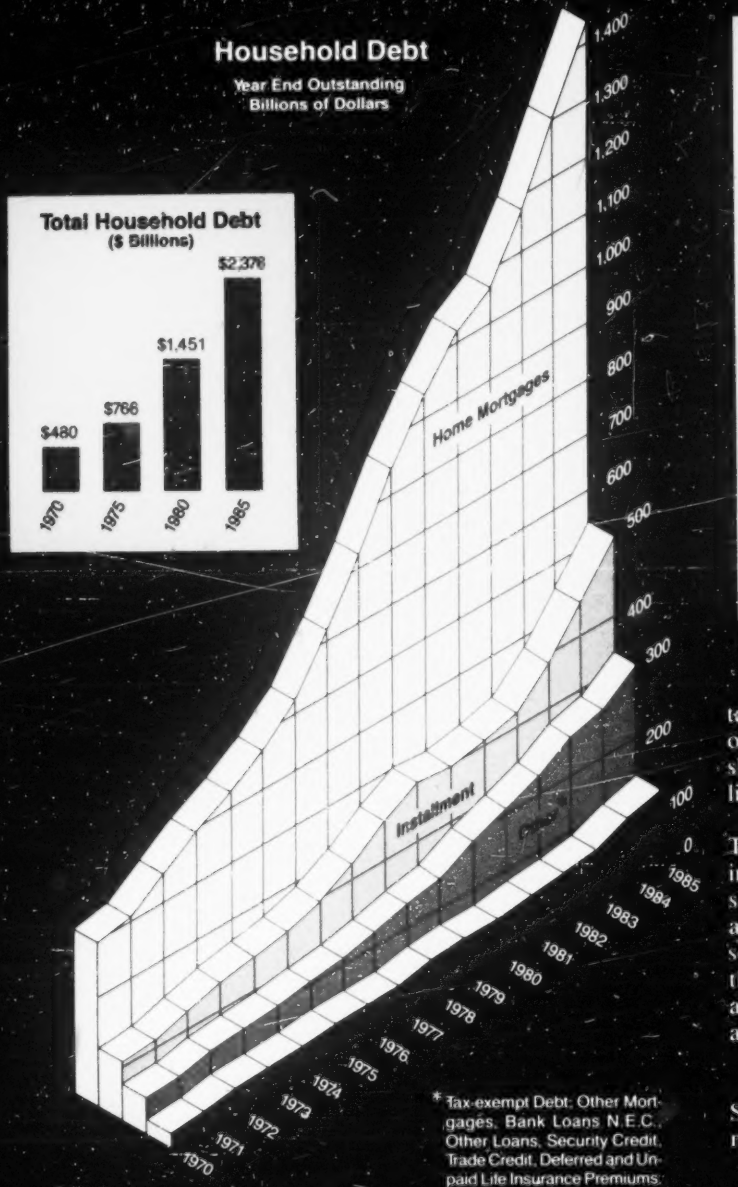
Foreign investors' holdings of U.S. Treasury securities have also grown considerably and totaled $215 billion in 1985 or 15% of publicly held securities. While the inflow of foreign capital helped to finance the budget deficit, the share of foreign ownership is viewed with some misgiving. The influx of foreign capital was fueled by a great imbalance in U.S. foreign trade which left foreign investors with huge surpluses of dollars. The decline in the value of the dollar and the resulting improvement in the trade balance should help to slow the flow of foreign funds into government securities.

Nonfinancial corporate debt outstanding in 1985 was $1.5 trillion and, for the second year in a row, short-term financing accounted for over 50% of the total. The high levels of borrowing were due mainly to the activity in mergers and acquisitions and, occasionally, to fight off hostile takeovers. There was also an unprecedented liquidation of equity during the past two years — some $160 billion was taken out of the equity market; debt instruments rose over $360 billion during the corresponding period. Such reductions in capi-

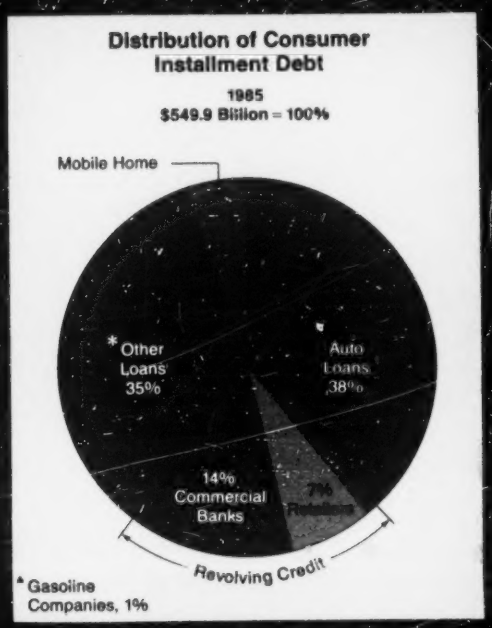








* Tax-exempt Debt; Other Mortgages, Bank Loans N.E.C., Other Loans, Security Credit, Trade Credit, Deferred and Unpaid Life Insurance Premiums.



* Banks, Finance Companies, Credit Lines, and Retailers

tal stock are highly unusual and have occurred only on a minor scale in past years. Higher share prices should eventually act as a deterrent to further equity liquidation.

Households have borrowed heavily in recent years. The increase in borrowing was fueled by a proliferating availability of credit and a tax system which subsidizes borrowing at the expense of savings, as well as a continued rise in the value of household assets. With some $2½ trillion of debt outstanding at year end 1985, there are some warning signals—for instance, debt now accounts for 85% of disposable personal income, an all-time high.

Eva Culen

Sources: Federal Reserve Board; U.S. Depts. of Commerce, Treasury & Agriculture; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Jou, Chief Chartist
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THE CONFERENCE BOARD, INC.
845 Third Avenue, New York, NY 10022 Avenue Louise, 207 Bte 3, B-1050 Brussels, Belgium
THE CONFERENCE BOARD OF CANADA
255 Smyth Road, Ottawa, Ontario K1H 8M7, Canada

The Conference Board

Economic Road Maps
1985 Index

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ECONOMIC ROAD MAPS

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R4105-5.89 (A)
9/86

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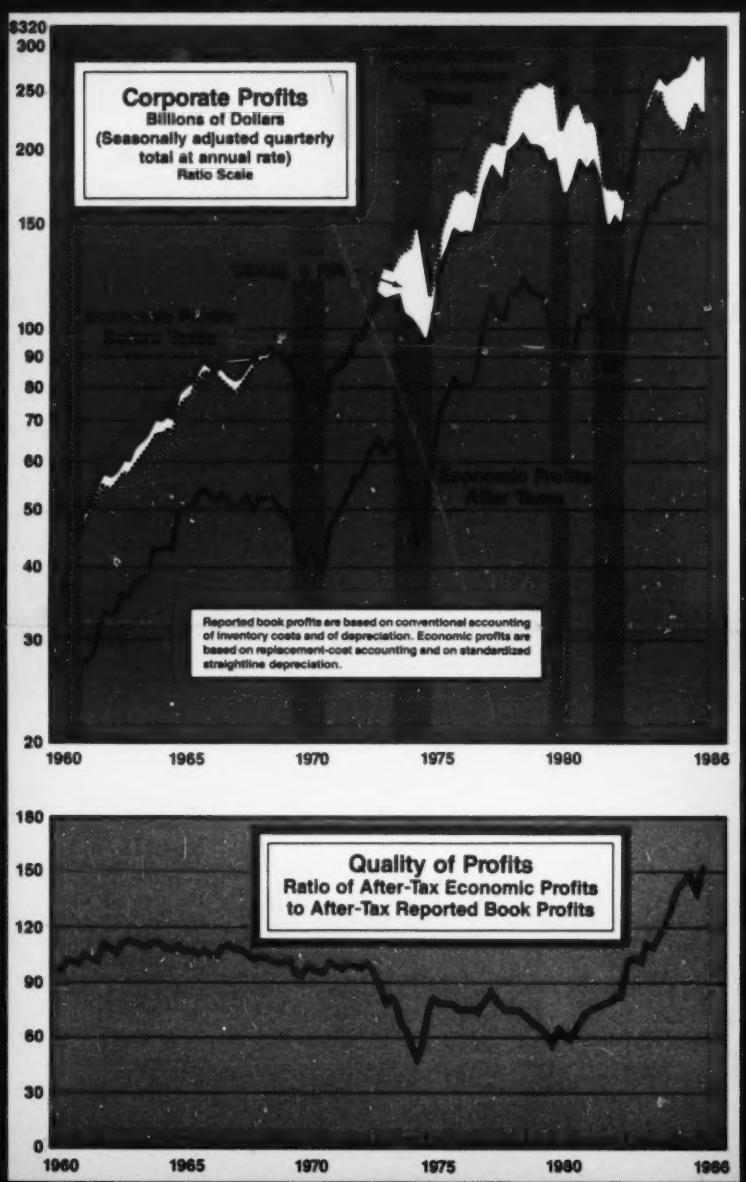
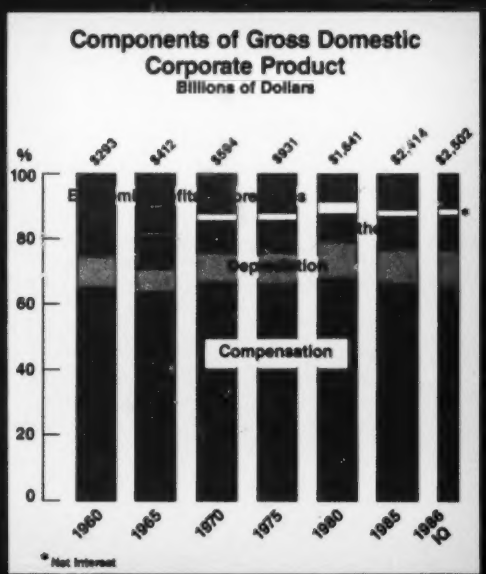
70th Anniversary

Corporate Profits: An Introduction

Economic Road Maps
Nos. 2005-2006 **August, 1986**

Corporate profits, which usually rebound dramatically in the initial stage of an economic recovery, have fluctuated widely during the business cycles of the last 25 years. Corporate profits in the last three years can be viewed as weak or strong, depending on which National Income Accounts (NIA) measures are chosen. Reported after-tax profits have been sluggish during the current expansion, averaging only 8.3% growth at annual rates. But these figures can be deceiving since measures of reported profits are not the best indicators of financial health. NIA reported profits are based on the difference between receipts and expenses (including depreciation) as reported for tax purposes.



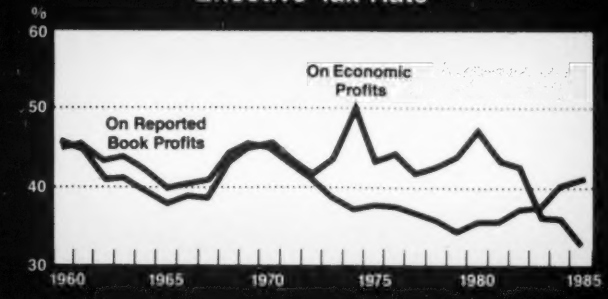


Economic profits, on the other hand, adjust the reported figures to reflect inventory and depreciation charges at replacement cost. Hence, they are better gauges of corporate earnings. During the current expansion, economic profits grew an average of 31% annually.

The surge in economic profits has dramatically improved the quality of profits — roughly measured as the ratio of economic to reported profits. While both profits measures moved closer together in the 1960s, reported profits surpassed economic profits during the 1970s. That trend has been reversed since 1983 as economic profits became stronger. Moreover, taxes have declined in relation to economic profits since they are based on reported figures. Similarly, the average annual growth of corporate tax liability declined in the 1980s after a period of steady growth in the 1970s.

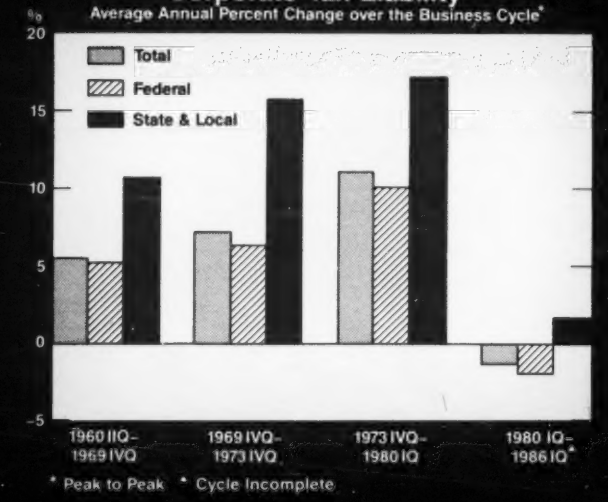
The difference between reported and economic

Effective Tax Rate



Corporate Tax Liability

Average Annual Percent Change over the Business Cycle*



* Peak to Peak * Cycle Incomplete

profits is caused by two adjustments included in the NIA profits measures:

1. The Inventory Valuation Adjustment (IVA) removes inventory gains or losses that arise from valuing inventory withdrawals at prices of earlier periods. The slowdown in inflation has produced a decrease in IVA over the last few years, virtually eliminating the "illusory inventory profits" that prevailed in the 1970s.
2. The Capital Consumption Adjustment (CCAdj.) converts tax-based capital consumption to a consistent accounting basis and a replacement valuation. CCAdj. has surged since the 1981 tax changes.

Table 1 highlights the dramatic swing in the IVA and CCAdj. since the late 1970s, when inflation was still rampant and before the corporate tax relief was enacted. Thus, economic profits have risen dramatically relative to reported profits—the result of lower inflation and faster depreciation allowances.

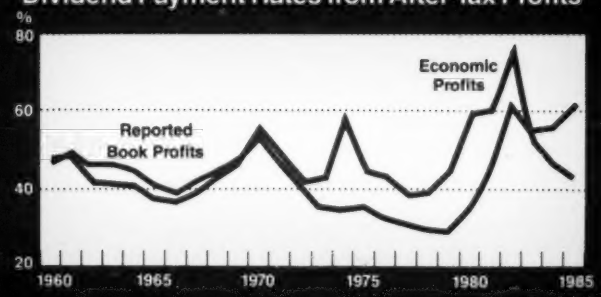
Table 1

Effects of the tax break and lower inflation on profits
$ Billions

	1980	1985	Change
After-tax reported profits	$152.3	$131.4	$ -20.9
IVA	-43.1	.6	42.5
CCAdj.	-16.8	58.1	74.9
After-tax economic profits	92.4	188.9	96.5

The two corrections in reported profits have implications for the trends in the dividend payout rate and in retained earnings. Looking only at reported profits, the dividend payout rate appears to have increased since 1980. But in terms of economic profits, it actually declined. This is good news for U.S. companies, since retained earnings with IVA and CCAdj. grew faster

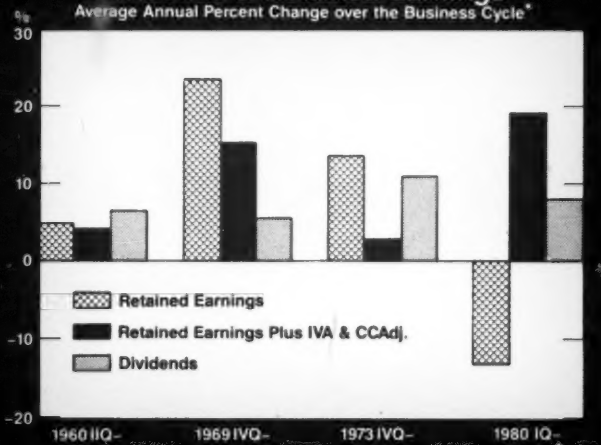
Dividend Payment Rates from After-Tax Profits

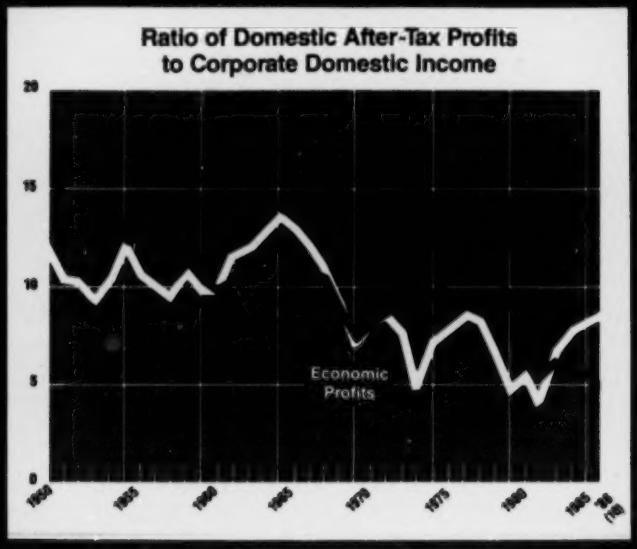


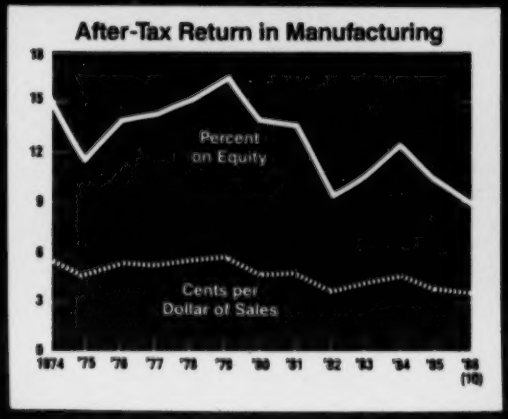
Composition of Pretax Economic Profits

Dividends & Retained Earnings

Average Annual Percent Change over the Business Cycle*



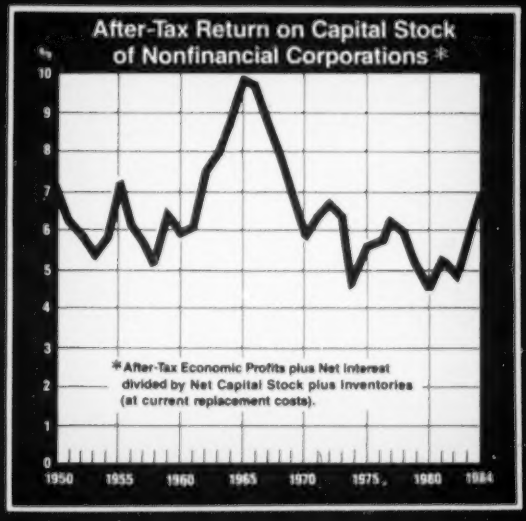


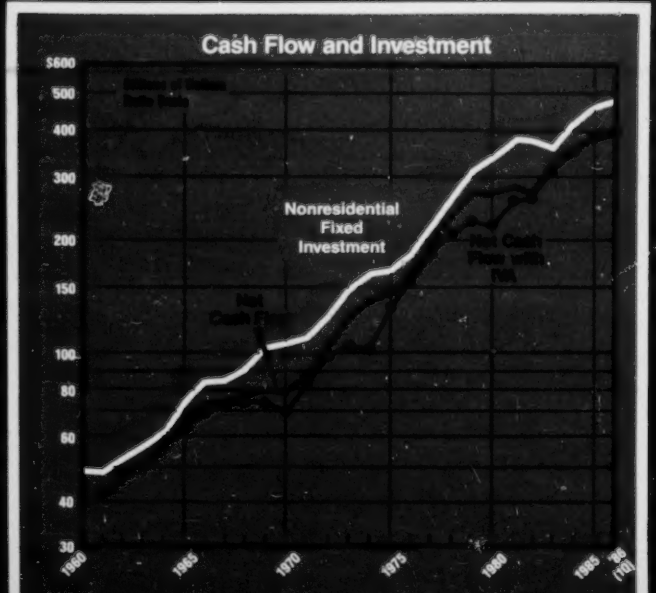


in the 1980s than during the 1970s, leaving corporations with more funds for new investment.

The surge in economic profits has improved the profitability picture. In the last three years, shares of corporate domestic income have shown an upward trend after a dramatic decline in the 1970s. The rate of profit on the capital stock also seems to have recovered somewhat. Its poor performance in the 1970s had economists concerned about the efficiency of corporate operations.

In contrast, profitability measures for manufacturing appear to have been rather sluggish during the current expansion. This cannot be explained simply by the pressures of foreign competition that the manufacturing sector faced when the dollar was strong. Since these measures exclude IVA and CCAdj. and are based on reported profits, they probably overstated profits in the 1970s and understate them in the 1980s.


After-Tax Return on Capital Stock
of Nonfinancial Corporations *
* After-Tax Economic Profits plus Net Interest
divided by Net Capital Stock plus Inventories
(at current replacement costs).



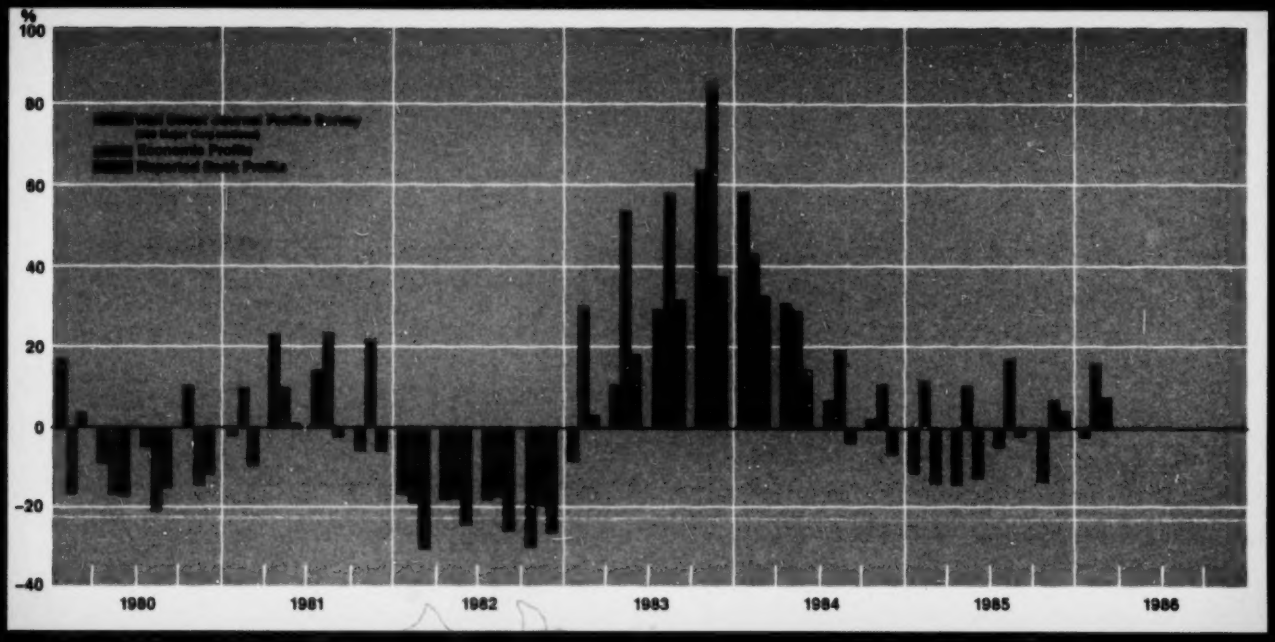
Faster depreciation allowances generated a huge surge in cash flow during the first half of the current expansion. This in turn fed the investment boom of that period. In the latter half of the recovery, cash flow growth slowed, leading to a somewhat disappointing investment performance.

NIA profits have been substantially stronger in the last few quarters than in survey reports such as those of the *Wall Street Journal*. One difference is that government figures cover a larger population. More importantly, the financial accounting results listed in the surveys generally recognize future expenditures earlier than the tax-based NIA measures. Expenditures associated with plant closings, company reorganizations, and future pension liabilities are recognized as a current expense in financial accounting but by the NIA only at the time the expenditures are actually made.

This difference in the timing of expense recognition can result in a substantial short-term divergence between financial and tax-based profit measures.

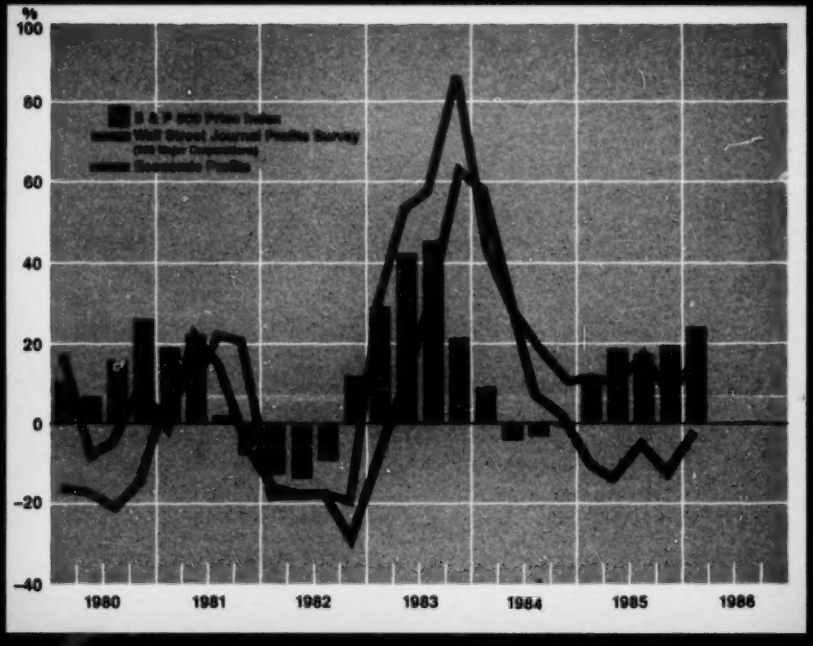
Different Measures of After-Tax Profits

Percent Change from Corresponding Quarter a Year Earlier



Stock Prices and After-Tax Corporate Profits

Percent Change from Corresponding Quarter a Year Earlier



That difference has resulted in special adjustments of more than $21 billion in 1985, explaining most of the discrepancy between reported figures and survey figures. In addition, the accelerated depreciation figures allowed by the tax code do not figure in shareholder profits, although they raised economic profits.

Stock market expectations, including guesses about future profitability, can be seen by tracking changes in the S&P 500 Index against changes in corporate profits. On that basis, the stock market anticipates slowdowns in corporate profits quite well.

Gerd D. H. Krueger

This Road Map was prepared with the valuable assistance of Kenneth A. Petrick of the Bureau of Economic Analysis.

Sources: U.S. Department of Commerce
The Wall Street Journal
Standard & Poor's
The Conference Board